

VZCZCXRO3659
OO RUEHFK RUEHKSO RUEHNH
DE RUEHKO #1317/01 1350538
ZNY CCCCC ZZH

O 140538Z MAY 08
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4232
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 3320
RUEHBY/AMEMBASSY CANBERRA PRIORITY 2622
RUEHLO/AMEMBASSY LONDON PRIORITY 2046
RUEHOT/AMEMBASSY OTTAWA PRIORITY 9654
RUEHFR/AMEMBASSY PARIS PRIORITY 6096
RUEHRO/AMEMBASSY ROME PRIORITY 2090
RUEHUL/AMEMBASSY SEOUL PRIORITY 9336
RUEHFK/AMCONSUL FUKUOKA PRIORITY 7781
RUEHNH/AMCONSUL NAHA PRIORITY 0167
RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 1461
RUEHKSO/AMCONSUL SAPPORO PRIORITY 8372
RUEATRS/TREASURY DEPT WASHDC PRIORITY
RHEFDIA/DIA WASHINGTON DC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHHMUNA/HQ USPACOM HONOLULU HI PRIORITY
RHEHAAA/NSC WASHDC PRIORITY
RUEHIN/AIT TAIPEI PRIORITY 7032
RHMFSS/USFJ PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 001317

SIPDIS

STATE PASS USTR FOR CUTLER, BEEMAN
TREASURY FOR IA - DOHNER AND POGGI

E.O. 12958: DECL: 05/13/2018
TAGS: PGOV ECON EFIN JA
SUBJECT: FUKUDA OVERRIDES OPPOSITION AGAIN; CENSURE THREAT
WITHDRAWN

REF: TOKYO 1193

Classified By: CDA Joe Donovan, reasons 1.4(b),(d).

¶1. (C) Summary. The Lower House has overruled the opposition-controlled Upper House for the third time in less than four months, passing a bill on May 13 to restore earmarks allocating certain road-related taxes to road construction for the next 10 years. However, Prime Minister Fukuda and his Cabinet took steps earlier in the day to limit the effectiveness of the new law by agreeing to end these same earmarks in FY2009. The main opposition DPJ has reiterated that it will not pursue a censure motion in the Upper House to protest the re-vote. Passage of this legislation is expected to have a neutral impact on the government's fiscal condition for the current fiscal year.
End summary.

¶2. (C) The ruling coalition passed into law on May 13 a bill to amend the Special Law on Financing Road Maintenance Outlays, restoring road construction earmarks for certain road-related tax revenues. The amended law once again earmarks revenues from the provisional gasoline and liquified petroleum gasoline (LPG) taxes for road construction and maintenance projects for 10 years, beginning in the current fiscal year. The amended law also incorporates a provision to continue the practice of allocating one-fourth of the revenues from the provisional taxes, approximately JPY 700 billion per year, to subsidize road-related projects initiated by local governments. Many localities were forced to freeze spending for road construction projects when laws authorizing the extension of the provisional taxes and the earmarks failed to pass before the previous authorization measures lapsed on March 31.

¶3. (C) The Lower House first passed the bill on March 13, after which the Upper House elected to hold it for the constitutionally allowable maximum of 60 days before rejecting it by a vote of 126-108 on May 12. Opposition

Democratic Party of Japan (DPJ) Upper House members Hideo Watanabe and Yasuhiro Oe voted against their party in support of the bill, in keeping with their vocal opposition to DPJ leader Ichiro Ozawa's tactics. Two others, Yoshitake Kimata and Wakako Hironaka, did not attend the plenary vote. This marks the third time in four months that ruling party lawmakers have exercised their constitutional authority to override decisions of the Upper House by a two-thirds majority re-vote in the Lower House. The provisional taxes were re-imposed on April 30, after a similar Lower House override. Shortly before the second Lower House vote, DPJ Secretary General Yukio Hatoyama addressed his party's decision to withhold a censure motion, saying: "My party is increasingly inclined to force the Prime Minister to step down through discussions (in the legislature)," rather than "create a situation where the Diet can't debate issues." The public has been consistently and overwhelmingly opposed to the use of the override vote, which is seen as "heavy-handed." Fukuda can scarcely afford to alienate the public any further, with his own cabinet support rate now threatening to dip below 20 percent.

¶4. (C) Prime Minister Yasuo Fukuda surprised vested road construction interests within his own Liberal Democratic Party (LDP) when he offered unilaterally in March to compromise with the DPJ by ending earmarks in FY2009. Reform-minded elements called on Fukuda to hold his ground, despite internal grumbling over his lack of prior consultations. To avoid further rancor in the divided Diet, he asked ruling and opposition party lawmakers to pass the

TOKYO 00001317 002 OF 002

bill in its original form and amend it later. Rewriting and submitting a new bill would have required starting from scratch in the Lower House. The DPJ was opposed to the re-imposition of the provisional gasoline tax, but supported ending the earmarks for what it considered to be wasteful spending. Rather than supporting Fukuda's proposal, however, the DPJ continued to demand an end to earmarks in the current fiscal year, refusing to trust Fukuda's word that he would limit the amended law's effect to only one year. To placate both sides, the Cabinet stipulated just prior to the vote on May 13 that the amended law's provision concerning earmarks will no longer apply after FY2008. Members of the LDP's road construction lobby have accepted the Cabinet policy, which also specifies the importance of continuing to build "necessary roads," and say they will focus their energies on the allocated funds that remain. The press have made much of the fact that Fukuda may be close to achieving the kind of meaningful road construction reform that has long eluded Japanese prime ministers.

¶5. (C) In economic terms, the override vote has a neutral impact on the government's fiscal condition for this year, as current spending plans and tax rates are maintained. Although the later amendment may end the earmarks for road construction from FY2009, the continuing Cabinet commitment to build "necessary" roads may result in little or no reduced spending on road projects. If road projects are indeed cut, the "savings" in government spending is likely to be used to fund other priorities. If the government does cut road spending in future years, when the earmarks end, and does not reallocate those funds to other areas of spending, there could be a positive impact on the fiscal deficit. However, at this point, the government's plans are not clear enough to estimate the impact. In addition, with the slowing of the economy bringing down tax revenue collections and the government facing an increase in its contributions to public pension premiums from one-third to one-half next year, the fiscal picture is not likely to improve this year or next.

DONOVAN